ALL STAR QUARTERLY

FOURTH QUARTER 2008

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2008 – 4TH QUARTER REVIEW AND PREVIEW

BOB'S CORNER

FREE ADVICE!

I hope this headline caught your attention, because we really want to reduce your fees and even give you a quarter or two free in 2009. Over the past 20 years we have a 97% client retention. It is satisfied clients like you that have helped us grow. With the economic situation the way it is, and more people being laid off today than ever before, we believe there is a huge opportunity to help give good unbiased advice to more people. That's where you come in! I would appreciate it if you would sit down with your address book and write down four names and numbers of people or couples that have either been laid off and/or need to rollover 401(k) assets, or who are not happy with their current advisor (lost a lot of money). For any referral that meets our minimum and becomes a client with All Star, we will give you a quarter free. If that client hits our next breakpoint for fees, we will drop your fee to the next level ($1M+ = 1.0%, $2M+ = 0.9%, $3M+= 0.8%, etc.)

Thank you in advance for your referrals, and a special thanks to those of you who helped All Star grow by over $50M of new client referral assets last year!

GIVE US A CALL TODAY!

2008 IS ONE FOR THE BOOKS – AWAITING A RECOVERY IN 2009

MARKET OVERVIEW

What started in 2007 as a crisis in subprime mortgages and housing, eventually took a huge toll on many of the nation's financial giants, snowballing in the fourth quarter into a major problem for the entire U.S. economy. Frozen credit markets stalled economic activity for businesses and consumers. Unemployment hit its highest level in decades, further eroding consumer confidence just as the important holiday season approached for retailers. The existence of a recession, already presumed by most, was officially confirmed during the 4th quarter.

All of these factors contributed to the already struggling stock market downward slide. 2008 marked the worst-performing year for stocks since 1931, when the nation was in the midst of the Great Depression. Only two stocks out of 30 in the Dow Jones Industrial Average managed gains, McDonald's and Wal Mart, which attract consumers by offering low priced goods. In total, about $7 trillion in value was lost in the domestic stock market in 2008, and the total on a global scale was $30 trillion. Combining investment losses with an unprecedented decline in home values, and most Americans begin 2009 feeling less financially secure than they did a year ago.

As these events unfolded, governments across the globe were taking extraordinary actions to smooth out problems created by the meltdown of the financial markets. In the U.S., it started with the Federal Reserve lowering short-term interest rates and injecting billions more into the financial system to help loosen up credit markets. It also includes the $700+ billion Troubled Assets Relief Program (TARP). Most of this money is being used to recapitalize major financial institutions, but the government has also tapped some of that money to provide loans to General Motors and Chrysler. This will help them avoid possible bankruptcy which would create an untimely blow to the economy.

As new administration and Congress take over in January, it is expected that a significant stimulus plan will be implemented as a further effort to revive the economy and help stem the momentum of the recession. Hopes for an economic spark along with extremely attractive stock valuations may help turn things around for investors and the economy in 2009.

ECONOMY

THE 4TH QUARTER

The official scorekeeper of U.S. economic activity, the National Bureau of Economic Research, verified the economy is in a recession dating back to December 2007. In the 3rd quarter, the nation's Gross Domestic Product declined by 0.5% and many anticipate that when the 4th quarter GDP is reported, it will drop to as low as -4.0% to -6.0% on an annual basis.

The pain is clearly being felt on Main Street. Unemployment is on the rise reaching 6.7% in November and could reach 9%-10% before 2009 is over. Housing values continue to deteriorate on a nationwide basis with prices down 18% nationally and much more dramatically in the hardest hit areas. Consumers, with little available savings and growing concerns about job stability, have pulled back significantly, leading to one of the weakest Christmas shopping seasons in decades. Stores have been closing by the thousands, compounding the nation's economic malaise. Consumer spending fell 3.8% in the 3rd quarter, the first decline since 1991 and the largest drop since the 1974 recession.

A few bright spots emerged by the end of the 4th quarter. Inflation has vanished as a concern. This is due in large part to the bottom falling out of the oil market. After prices peaked at $147/barrel in July, they bottomed near $33/barrel in December, giving consumers a break at the gas pump. Declining interest rates created some hope for the housing market, as mortgage rates dropped more than 1.0% in December. These are the lowest rates for prospective and current homeowners since the 1970's, causing a spike in mortgage applications. This could help spur a recovery in housing and go a long way toward improving the economic environment.

INSIDE…FOURTH QUARTER REVIEW AND PREVIEW CONTINUED…PERFORMANCE SUMMARY

LOOKING AHEAD

Most forecasters anticipate a slow start for the economy in 2009, with negative GDP growth expected through the first half of the year. Consumers are likely to maintain their newfound conservative spending habits and focus on rebuilding their savings. Many are trying to refinance mortgages or obtain a new mortgage given the drop in interest rates.

The massive policy response by the federal government and the Federal Reserve is in stark contrast to what occurred in the first years of the Depression. The government raised interest rates and let banks fail in the 1930's. Not so today! This has helped minimize the extent of the damage that could have occurred this time around, and will hopefully spur a recovery in order to avoid a Depression-like downward spiral.

Markets will closely monitor the stimulus plan generated by the new Obama administration and Congress, but we expect to see hundreds of billions of dollars poured into infrastructure, job creation, alternative energy projects and possible tax code modifications. Similar stimulus efforts are occurring overseas as well (over 2.6 trillion dollars globally). Although it is difficult to predict when, we believe a recovery will be set in motion sometime in the next 12 months!

BOND MARKET

THE 4TH QUARTER

The place to make money in the markets in the 4th quarter was Treasury securities, as investment dollars chased the safest vehicles available. Government bonds gained +8.7% during the quarter and government agency bonds rose +4.2%. Short term government bonds and world sovereign bonds managed modest gains.

The rest of the bond market struggled as money deserted securities that came with any degree of risk. Bonds tied to bank loans lost -22% and corporate high yield debt declined -18%. The Treasury Department and Federal Reserve have been focused on trying to restore confidence to the credit markets. By the end of the 4th quarter there were signs of some improvement. Banks began lending to each other again and there was a modest increase in loan activity. There were even signs of positive movement in corporate, high-yield and emerging market bonds, indicating a thaw in the credit freeze.

LOOKING AHEAD

Investors have been pouring money into Treasury securities, particularly short-term Treasury bills, currently paying a yield of barely above 0%. As the government takes on more debt, it has become much more leveraged than other debt issuers. At some point investors may recognize a more attractive opportunity in corporate debt and other segments of the fixed income market. Investors should eventually warm up to more investment grade corporate securities, now yielding 8% - 9% compared to less than 3% for 30-year Treasury bonds. We anticipate a strong recovery in credit markets in 2009.

DOMESTIC STOCK MARKET

THE 4TH QUARTER

The closing quarter of 2008 proved to be the worst quarter of an already bad year for stocks as investors were unable to find a safe refuge. Stocks of virtually all sizes from a wide range of industries and every investment style took a hit. The broad Russell 3000 Index lost -22.8% for the quarter. Both value and growth styles declined -22% to -23%. Large-cap stocks, with a loss of -22.5%, modestly outperformed mid-cap and small-cap stocks which both dropped -25% to -27%. Every industry sector declined, though defensive industries weathered the onslaught the best. Telecommunications stocks were down just -3.2%, while Utilities returned -11.3%, Consumer Staples lost -13.6%, and Healthcare stocks fell -14.0%. Financial stocks again dragged down the entire index losing -35.8% in the final quarter of 2008.

The meltdown in the financial markets, much of it stemming from the bankruptcy of the storied firm Lehman Brothers in September, led to a flight to quality, with investors seeking only the safest havens for their money. Financing costs soared and corporate profits hit a wall, falling 18% in the 3rd quarter. The pain is no longer limited to the financial and banking sectors, but is now widespread throughout the vast majority of companies.

Additional pressure was placed on the stock market which forced selling by hedge funds that had to unload stocks in order to meet huge year-end redemptions. The revelation of the $50 billion "Ponzi scheme" directed by Bernard Madoff capped off what was a maddening year for those putting money into less traditional investing outlets.

Still, from November 20th to the end of the year, stocks managed a 12% rally. This could be the signal that the market may have bottomed in the early part of the 4th quarter and gives us hope for 2009.

Performance Update

Annualized Returns

Market Index	4th Qtr	1 Year	2 Years	3 Years	5 Years
DJ Ind Average	-18.40	-31.83	-13.87	-4.07	-1.06
S& P 500	-21.85	-37.03	-18.50	-8.38	-2.20
Russell 2000	-26.12	-33.79	-19.27	-8.29	-0.93
S&P Mid-Cap 400	-25.55	-36.23	-17.02	-8.76	-0.08
Russell 3000	**-22.78**	**-37.31**	**-18.81**	**-8.63**	**-1.95**
MSCI EAFE	-20.33	-45.09	-22.77	-9.69	-0.69
MSCI Em Mrkt USD	-27.94	-54.48	-21.18	-7.07	5.07
NASDAQ Comp	-24.27	-40.50	-19.20	-10.58	-4.67
Lehman High-Yield	-17.88	-26.16	-13.27	-5.59	-0.80
Lehman Agg Bond	4.58	5.24	6.10	5.51	4.65
Lehman Credit Index	4.03	-3.08	0.93	2.03	2.65
Lehman Gov Bond	8.05	12.39	10.51	8.11	6.06
Lehman Corp	7.08	-5.98	-0.77	0.86	1.97

The above annualized total returns and betas represent All Star Financial models. Your actual beta may differ depending on your portfolio holdings.

LOOKING AHEAD

Stock valuations are very attractive. Looking back at history price/earnings ratios, a common measure of a stock's actual value, are at the lowest point in decades. The key question is whether earnings can live up to expectations. The extremely challenging economic environment has made it difficult to feel confident about setting reliable earnings forecasts.

Patience is required and we believe it will ultimately be rewarded. It is important to keep in mind the stock market typically moves in advance of economic events. Therefore, the markets will likely predict an improving economic environment before it actually occurs. While some selectivity is required, a broad swath of stocks across market capitalizations, styles and industries, have reached very low price levels. So there is a tremendous upside potential, particularly when signs of a break in the recession become more apparent.

INTERNATIONAL MARKETS

THE 4TH QUARTER

Diversification into global markets provided no benefit for investors in the 4th quarter, as the economic environment quickly deteriorated worldwide. In fact, the decline in domestic stocks was easily matched by many developed markets and exceeded by a number of prominent emerging economies. Stocks fell as much as 55% to 72% in the much-touted BRIC economies (Brazil, Russia, India, China). A crash in commodity prices took a toll on markets in nations that are large producers, most notably in Latin America, where stocks declined -41.2% during the quarter.

The MSCI EAFE index lost -19.4% in the closing three months of 2008 and the average international stock fund was down -23.4% Japan weathered the storm better than most markets, losing just -14.7%. Emerging market stocks returned -29.6% for the period. The global economic decline made clear that markets around the world remain closely interconnected.

LOOKING AHEAD

Economic struggles are likely to continue well into 2009 for most overseas markets. The recession appears at risk of deepening in Europe and Japan. Commodity-based countries like Russia are likely to face on-going challenges, though other emerging economies may be better positioned for the year ahead. China and other countries have been hurt by the weakened American consumer, but they may overcome this setback if they succeed in spurring on increased domestic demand. We also believe that the dollar will fall again and bring a nice appreciation when foreign stocks are repatriated into U.S. dollars every day!

SUMMARY

The investing landscape experienced historic changes in 2008, ones that will be with us for years to come. ***First***, consumers who took on more debt than they should have over the last decade, will begin to start saving again. This will initially mean slower growth for the economy, but long-term will provide a solid foundation for lasting economic expansion. ***Second***, the regulatory environment that fostered the growth in mortgaged-back securities, credit default swaps, and the myriad of exotic but risky investments that brought the house of Lehman, AIG, and other financial institutions crashing down, is gone forever. The current Madoff scandal, which directly involves hedge funds, another recent Wall Street investment, will serve as a casebook study for congress and regulators, as a new era of enforcement, regulation, and transparency will bring a brighter future for investors. ***Third***, the government policy response has been massive and unprecedented, from both a fiscal and monetary standpoint, and there is more to come. ***Finally***, the severe sell-off in many asset classes has created investment bargains galore, and we are sorting through the "rubble" for some tactical "gems" to include in your portfolios for 2009.

We think the late-November bottom in the market will eventually hold, though bad economic news will test it in the months to come – call it a "muddy bottom". The fiercest bear markets have eventually fostered the strongest bull rallies! We know it is coming, we do not know when, but we look forward to happier returns in 2009!

Why Stay Invested?

Nothing ignites the fear of losing one's hard-earned money like a violent, short-term stock market correction. For many investors, even those with a long-term perspective, the natural human reaction to a sudden plunge in the stock market is to reduce or liquidate one's exposure. Their goal is to try and stem further loss of capital and soothe a rattled mind. The financial crisis has been unparalleled in both speed and severity, even looking back to the Depression. The economy is in a recession, unemployment is rising, housing prices are falling, and your investment portfolios are down significantly. During times like this many investors ask, ***"Why stay invested?"*** How can the stock market possibly recover during a recession? We think investors should step back and consider the following long-term market results when reassessing their long-term risk tolerance and investment decisions:

1. Investors are not very good at timing the market; they piled money into stocks just prior to crashes during 1987 and 2000, only to shy away from stocks as they recovered in the following years. Great, legendary investors such as Warren Buffet and John Templeton know the time to buy is when fear is greatest. In general, investors have tended to increase their exposure to stocks just prior to sell-off, and reduce their holdings ahead of a period of appreciation. For example, investors invested a record $219 billion in net new money to stock mutual funds during the 12 month period ending October 31, 2000, which preceded a decline of 27% for the S&P 500 Index throughout the following year. After three straight years of stock market declines, flows turned negative (redemptions exceeded sales) during the 12 month period ending February 28, 2003. However, from that point on through the next year, the S&P 500 rallied 35%. In other words, most investors were selling out of equity funds prior to a significant rebound. This is exactly the time when they should have been putting more of their assets into stocks.

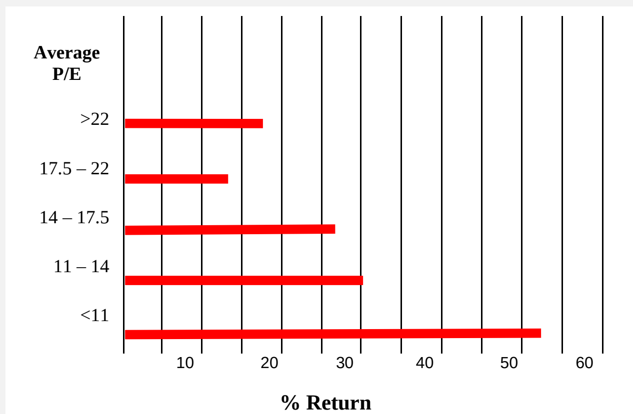
2. Stocks typically have been more volatile than other asset classes, but higher returns compensate for assuming this added risk-especially in times of extreme market volatility. Since 1926, the best five-year return in the U.S stock market began in May 1932 – in the midst of the Great Depression – when stocks rallied 367%. The next best five-year period (when the stock market rose 267%) began in July 1982 amid an economy in the midst of one of the worst recessions in the post-war period, featuring double-digit levels of unemployment and interest rates. Investors might use these lessons from history to remember that staying fully invested can give them an opportunity to participate in the market's long-term upward trend.

Opportunity Arises When Most Run for Cover

Date	Subsequent 5 Year Return	Event Prior to Rebound
May '32	367%	Great Depression
July '82	267%	2nd Largest Recession since the Great Depression
December '94	251%	Following aggressive Fed tightening for first time since the 1970's

3. Stocks are cheap, valuations on stocks are well below their historical averages, and although we expect further earnings declines in 2009, the earnings yields on stocks are still attractive, especially when compared to less than a 1% yield on money market funds and treasury bills. Dividend yields are a bonus and yield more, on average, than long-term treasuries for the first time since 1958. Stock returns have been strongest following periods when P/E valuations on stocks have been lowest.

From 1930-2008
Average 2-Year Returns After P/E Ratio Reaches Certain Levels



Corporate earnings are declining, and will do so again during 2009, but consider that since 1908 the stock market has had average gains of 19.8% during 13 separate years where profits declined by double-digits or more. Stocks can rise during recessions, and normally recover before the economy!

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